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LETTER DATED 30 MAY 1991 FROM THE SECRETARY-GENERAL ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

As I indicated in paragraph 13 of my report (S/22559) to the Security Council, pursuant to paragraph 19 of its resolution 687 (1991), I attach herewith a note suggesting a percentage figure of the value of Iraq's petroleum exports which should not exceed its contribution to the Fund.

(Signed) Javier PEREZ de CUELLAR

Annex

30 May 1991

Note of the Secretary-General pursuant to paragraph 13 of his report of 2 May 1991 (S/22559)

1. On 2 May 1991 I presented to the Council, in compliance with Security Council resolution 687, a report (S/22559) pursuant to paragraph 19 of Security Council resolution 687 (1991). In the same paragraph 19 it was stipulated that Iraq's contribution to the fund based on a percentage of the value of the exports of petroleum and petroleum products from Iraq should not exceed a figure to be suggested to the Council by me. In paragraph 13 of the report, I informed the Council that I will undertake the appropriate consultations as required so that, as soon as possible, I will be in a position to suggest this figure.

2. Authoritative data necessary for the preparation of this communication to the Security Council is not readily available. However, given that Iraq derives almost its entire exports earnings from the export of one single commodity (oil) and that the unit price and export volume of Iraqi oil are monitored by OPEC, it is possible to estimate the size and functioning of its economy in general and of its external trade and payments structure in particular. Data available for this exercise have been taken from various sources including the Government of Iraq, the International Monetary Fund, ESCWA, OPEC, and the United Nations Statistical Office.

3. Paragraph 16 of resolution 687, in defining the extent of Iraq's liability, states that it is "liable under international law for any direct loss, damage, including environmental damage and the depletion of natural resources, or injury to foreign government, national and corporations, as a result of Iraq's unlawful invasion and occupation of Kuwait". As paragraph 16 states, this liability is "without prejudice to the debts and obligations of Iraq arising prior to 2 August 1990, which will be addressed through the normal mechanisms". Thus, this communication has to limit itself to dealing with the economic and financial possibilities and constraints of Iraq to compensate for the damage defined in paragraph 16.

4. Iraq's oil production quota, as agreed to within OPEC in July 1990, is of 3.14 million barrels per day. With an estimated internal consumption of about 300,000 barrels per day, the Iraqi Government intends to reach its most recent 1989 level of exports of 2.85 million barrels per day in 1993, as communicated by the Permanent Representative to the United Nations to me in his letter of 29 April 1991. If the reference price of $21 per barrel agreed to by OPEC in July 1990 were to be used during 1993, which after adjustment for quality would result in a price of $20.04 for Iraqi crude, total Iraqi export earnings for 1993 can be expected to reach $21 billion, surpassing its 1989 export revenue. Such earnings could conceivably be higher, given that global demand for oil increases by 2 per cent annually, that production in large industrial countries has been declining over the last four years, and that only a few

countries have the reserves and even fewer the production capacity to offset the resulting shortfall. These calculations also assume that all OPEC member countries would return to roughly similar production quotas as those agreed to in July 1990, thus allowing Iraq to reach this level of exports without causing a price collapse.

5. Estimates for foreign exchange expenditures of the Iraqi economy for strictly civilian purposes during the 1980s vary. By taking account of historical relationships of consumption and investment to GDP and their import intensity, and data on net service imports as provided by Iraq, it is estimated that about $8 billion may be required to sustain a level of civilian imports in 1991 consistent with the needs of the Iraqi economy.

6. Iraq's total external debt and obligations have been reported by the Government of Iraq at $42,097 million as of 31 December 1990. However, the exact figure of Iraq's external indebtedness can only be ascertained following discussions between Iraq and its creditors. To estimate debt servicing requirements it is assumed that Iraq reschedules its debts at standard Paris Club terms.

7. With oil exports expected to reach about $21 billion by 1993 imports should absorb about 48 per cent of export earnings and debt servicing approximately 22 per cent. I suggest, therefore, that compensation to be paid by Iraq (as arising from section E of resolution 687) should not exceed 30 per cent of the annual value of the exports of petroleum and petroleum products from Iraq.

8. The above calculations are based on data and a number of assumptions that have to be kept under review.